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G30 and ISSA Recommendations

Urs Stähli, ISSA Secretary



International Securities Services Association ISSA

**G30
Global
Clearing & Settlement**

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After having heard some very concrete action steps initiated in the narrower European environment - primarily geared towards the "European Union Land", let's now turn to the global level, to the twenty G30 recommendations issued at the beginning of this year.

Agenda

- ◆ G30 Vision
- ◆ G30 Recommendations and ISSA Monitoring
- ◆ Overlaps and Gaps between G30's Recommendations and ISSA's



I will quickly recap the vision expressed by G30 on how global clearing and settlement - and certain custody elements for that fact - should be structured over the next 5 to 7 years.

Thereafter, I will spend some time on the 20 recommendations, some I will touch only briefly, on others I will comment in more detail. I will also cross-reference some recommendations to the activities proposed by the Giovannini Group and the European Securities Forum. After all, we have to be mindful not to overload the cart with initiating activities from all sorts of angles, particularly in the present or soon to join EU countries. On the other hand, the region Europe still stretches beyond the reach of the European Union.

Whenever you'll see the magnifying glass, the respective G30 recommendation has been proposed to G30 for monitoring by ISSA.

Finally, I will go into some gaps of the G30 recommendations compared to ISSA's.



G30 Global Clearing & Settlement

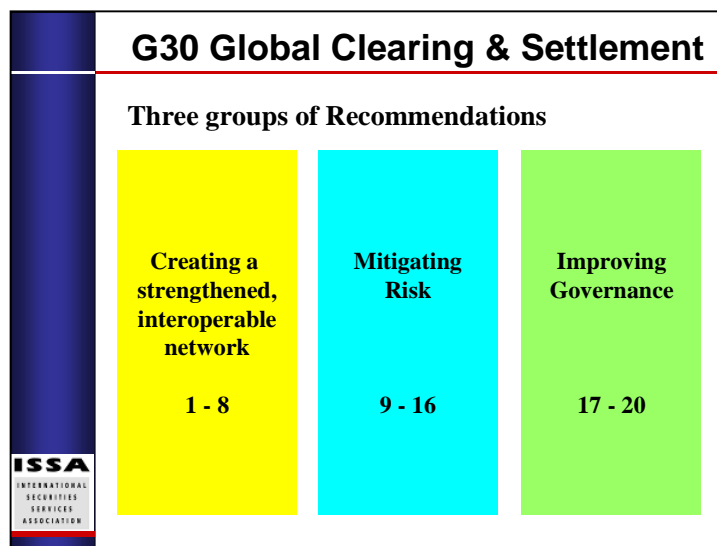
Vision

Fully automated and interoperable systems

- ◆ forming a **seamless** global network for C&S
- ◆ with **fair access** for all qualified users
- ◆ providing sound **risk management** practices
- ◆ overlaid by strong and effective **governance**
- ◆ subject to **consistent** supervision and oversight

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The foundation for G30's vision was formulated more than two years ago, at a time when "9-11" was unthinkable. The initiative spurred on the belief that there is a tendency towards a false sense of security, given that no major crises had rippled the global financial industry's infrastructure for a considerable amount of time.



The 20 recommendations were grouped into three distinct sectors.

Unlike other initiatives, there has been no prioritising of further work on behalf of the G30. Yet, G30 has suggested that the initial focus of attention be limited to a set of advanced economies with significant financial markets. Major markets are taken to include equity and fixed-income securities markets in the US, Canada, European Union, Switzerland, Japan, Hong Kong, Singapore and Australia.

It is clear, however, that this selection cannot not be cast in stone, whenever a market wants to adopt those 'best practices', there is no obvious ground for not doing so. In the first instance, the focus is recommended to be on the CCPs, CSDs, other infrastructure providers and major intermediaries active in those markets, primarily the market segments that constitute ISSA's membership.


Recommendation 1

ISSA <small>INTERNATIONAL SECURITIES SERVICES ASSOCIATION</small>	<h3>Interoperable Network</h3>
	<p>Recommendation 1:</p> <p style="background-color: yellow;">Eliminate paper and automate communication, data capture and enrichment.</p> <ul style="list-style-type: none"> ◆ Paper securities certificates ◆ checks, confirmations, notifications, transfer documents, prospectuses, BO declarations ◆ avoid duplicate recording and manual addition ◆ ZIP - Zero Intervention Process

Compliance would be a state of Nirvana for those who achieve it! I would highlight that G30's call is not just for paper securities certificates to be eliminated but practically any paper accompanying a transaction. Further work will have to consider national securities regulations and property laws. Legal standards for recognition of electronic documents will have to be established or refined. Very ambitious goals that will keep various stakeholders busy.

ISSA does not foresee a monitoring role for this G30 Recommendation.

Recommendations 2 and 3

ISSA <small>INTERNATIONAL SECURITIES SERVICES ASSOCIATION</small>	<h3>Interoperable Network</h3>
	<p>Recommendation 2:</p> <p style="background-color: yellow;">Harmonize messaging standards and communication protocols.</p> <p>Recommendation 3:</p> <p style="background-color: yellow;">Develop and implement reference data standards.</p> <ul style="list-style-type: none"> ◆ ISO 15022 --> XML ◆ ISO 6166 - ISIN ◆ ISO 9362 - BIC ◆ Other generic data categories <div style="display: flex; align-items: center; justify-content: flex-end;"> <div style="background-color: yellow; padding: 2px 5px; font-weight: bold;">Corporate Actions !</div>  </div>

Drawing on existing initiatives and working groups, standards should be comprehensive, covering the needs of all users in the value chain.

Issuers, exchanges and other originators and distributors of data should make all relevant information available to the market in compliance with these standards on a timely basis.


Particularly the reference data standards will also benefit the activities to be undertaken in the field of corporate actions.

The Giovannini Group calls for standardising interfaces with clearing and settlement providers within two years.

ESF calls for agreement with the CSDs in two markets by year-end to eliminate the currently required local ID codes for counterparties. In addition, agreement is to be reached by year-end with one market on the use of ISO 15022 as standard in financing transactions.

ISSA foresees a monitoring role for these two recommendations.

Recommendations 4 and 5



Interoperable Network	
Recommendation 4:	Synchronize timing between different clearing and settlement systems and associated payment and foreign-exchange systems.
Recommendation 5:	Automate and standardize institutional trade matching.

The design, procedures, operational timetables as well as funding and cut-off times of the systems should ensure that the operation of one system does not materially reduce the efficiency, or increase the risk, of settlement in another.

G30 does not mandate a specific T+n days.

The Giovannini Group calls for harmonised operating hours and settlement deadlines within a period of two years, using TARGET hours as the benchmark. Further study is proposed on the harmonisation of settlement periods across the markets, at least for equities.

ESF calls for reaching agreement with ECSDA on standardisation of settlement timeframes and operating hours by the end of this year.

Recommendation 5 is an old requirement of ISSA and G30, dating back to the late 80's. Progress got somewhat a damper with the demise of GSTPA, yet the issue still stands for efficiently matching trades between institutional investors and their brokers as well as involving early on the respective global custodians.

The Giovannini Group alludes to this requirement in connection with the harmonisation endeavours mentioned before.

ISSA does not foresee a monitoring role for these two recommendations.

Recommendation 6



The emergence of CCPs has quite some impact on local and regional clearing and settlement agents, particularly with a view to pre-settlement netting features.

Interoperable Network

Recommendation 6:

Expand the use of central counterparties.

- ◆ Markets without CCP to issue comment paper
- ◆ Assess Risks, costs and benefits of a CCP
- ◆ Potentially use services of existing CCPs rather than establishing new ones

ISSA supports the approach of assessing first the benefits of introducing CCPs in a particular market, yet is also in favour of limiting the emergence of new structures where use can be made of existing systems and mechanisms.

ISSA offers compliance monitoring in case no other organisation was to come forth.



Recommendation 7

Interoperable Network

Recommendation 7:

Permit securities lending and borrowing to expedite settlement.

- ◆ Identify impediments in relevant markets
- ◆ Propose steps to remove and define time-frame
- ◆ Lobbying effort with authorities
- ◆ Opportunities to offer new / improved services



Another long standing ISSA and G30 requirement, with the emphasis on expediting settlement.

Taxation issues, accounting treatment and legal/bankruptcy constraints need to be addressed. In addition, CSDs, CCPs and other infrastructure providers should develop functionality that enables efficient securities lending and borrowing.

Again, ISSA offers compliance monitoring in case no other organisation comes forth.



Recommendation 8

Interoperable Network

Recommendation 8:

Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership

- ◆ Automated and timely CA details
- ◆ Automate/standardize tax relief arrangements
- ◆ Transparency in foreign ownership restrictions and ownership reporting requirements


One of the core areas for asset servicers. Unfortunately, all issues have been packed into one single recommendation despite the significant risk potential inherent in corporate actions, or unawareness of restrictions on foreign ownership.

The Giovannini Group calls for harmonisation of national rules relating to corporate actions, beneficial ownership and custody aspects over the next 2 1/4 years. In addition, all financial intermediaries established within the EU should be allowed to offer withholding agent services in all member states, so as to ensure a level playing field between local and foreign intermediaries.

The ESF calls for the creation of an expert group to work out a model for the standardisation of record and ex-date for all corporate action events and income payments and the use of validated sources and repositories for such data. In addition, the ESF intends to reach agreement with two markets' tax authorities to allow automation of the cross-border tax reclamation process.


This is definitely an area where ISSA will want to assume compliance monitoring.

Recommendations 9 - 11

Risk Mitigation	
	Recommendation 9: Ensure financial integrity of providers of clearing and settlement.
	Recommendation 10: Reinforce the risk management practices of users of clearing and settlement service providers.
	Recommendation 11: Ensure final, simultaneous transfer and availability of assets.

Even though international harmonisation of these issues will also benefit the ISSA constituency at large, ISSA has decided not to monitor compliance with these recommendations. Monitoring should be left to the parties called upon to initiate action respectively enforcing their implementation.


Recommendations 12 and 13

Risk Mitigation	
	Recommendation 12: Ensure effective business continuity and disaster recovery planning.
	Recommendation 13: Address the possibility of failure of a systemically important institution.

Despite the fact that during last year's ISSA Symposium we agreed upon and published a detailed recommendation on business continuity, disaster recovery and crisis

management planning, including market-wide testing, ISSA is of the opinion that regulators are best positioned to mandate the requirements and assume the monitoring.

Recommendations 14 - 16


Risk Mitigation	
	Recommendation 14: Strengthen assessment of the enforceability of contracts.
	Recommendation 15: Advance legal certainty over rights to securities, cash or collateral.
	Recommendation 16: Recognize and support improved valuation and close-out netting arrangements.

Again three areas where ISSA would want to leave the field to regulators to monitor and to particularly work towards embodying PRIMA in national laws.

The Giovannini Group calls for an EU Securities Account Certainty project whose objective should be to draft the target reform. Such task should be completed within a period of three years. This project is in addition to the EU Collateral Directive, scheduled to be implemented by the end of this year, that will remove much of the legal uncertainty relating to netting and the uneven application of conflict of laws.

The ESF proposes to reach agreement with the EU Commission, by year end, to establish an expert group in order to arrive at a EU-wide single definition of ownership and transfer of ownership in dematerialised securities.

Recommendations 17 and 18

Improved Governance	
ISSA INTERNATIONAL SECURITIES SERVICES ASSOCIATION	Recommendation 17: Ensure appointment of appropriately experienced and senior board members.
	Recommendation 18: Promote fair access to securities clearing and settlement networks.
	

Nothing to comment on recommendation 17.

Number 18 calls for fair access for all qualified organisations to use or provide clearing and settlement services. This is not a call for full, open access, as restrictions on the grounds of risk, systemic safety or public policy are clearly for the good of the market participants as a whole and in the wider public interest.

The Giovannini Group calls for the removal of national restrictions on the location of clearing and settlement and on the location of securities within a period of three years. Such removal is considered an essential pre-condition for a market-led integration of the EU Clearing and Settlement Directive. In addition, practical impediments to remote access to national clearing and settlement systems should be removed.

The ESF calls for agreement of principle with relevant political and regulatory authorities for the acceptance of the home country passport within the EU for custody, investment administration and the execution of fiduciary roles.

ISSA has opted to assume a monitoring role for this recommendation, based also on the relatively large depository constituency within ISSA.

Recommendations 19 and 20


Improved Governance

Recommendation 19:

Ensure equitable and effective attention to stakeholder interest.

Recommendation 20:

Encourage consistent regulation and oversight of clearing and settlement service providers.


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ISSA is of the opinion that monitoring of these two recommendations should rather be assumed by regulators.

Gaps and overlaps between G30 and ISSA

G30 / ISSA - Overlaps / Gaps


Preliminary, subject to board ratification

1. Governance
2. Technology - core processing
3. Messaging and standards
4. Market practices
5. Settlement risk
6. Market linkages
7. Investor protection
8. Legal infrastructure



Progress

No separate monitoring anymore


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ISSA Recommendation 1 - Governance

G30 authority in this area believed to be greater than ISSA's.

ISSA Recommendation 2 - Technology - Core Processing

Covered by and large by various G-30 Recommendations. Possibly, ISSA could assist in defining what constitutes a systemically important institution for cross-border investors and what best practice would be for others.

ISSA Recommendation 3 - Messaging and Standards

Traditional focus area for ISSA. Give up for more detailed G30 Recommendations 2 and 3; ISSA proposed to monitor those two G30 Recommendations.

ISSA Recommendation 4 - Market Practices

ISSA work to continue on the detail level and envisage exception reports. Among the areas not covered by G30 are proxy voting, margining past due settlements, book entry systems interfacing with transfer agents.

ISSA Recommendation 5 - Settlement Risk

There is a logical role for ISSA to identify issues in the key markets, such as the creation of settlement performance standards and also the appropriate lapsed time for and the scope of trade matching, areas not being specifically covered by G30.

ISSA Recommendation 6 - Market Linkages

ISSA to focus on the modality of CSD linkages and continue to promote the importance of avoiding multiple infrastructures in different countries. Payment systems connectivity regarded more opportune under the auspices of BIS.

ISSA Recommendation 7 - Investor Protection

ISSA focus to be on shareholder rights (particularly in connection with entitlement to income and CA where there are foreign ownership constraints). ISSA to promote a regime of WHT taxation at source. G30 focus more on efficient reclaims, ISSA more on proper deduction at source.

ISSA Recommendation 8 - Legal Infrastructure

Leave to regulators, eg. G30 Nr. 14 (PRIMA), G30 Nr. 15 (Finality).

So far, there has been no clear prioritising by G30 of the activities to be undertaken. Priorities may vary across market segments and geographic regions.

Within Europe, to be more exact within the EU region, much more concrete activities have taken place so far respectively have been proposed. Yet again, priorities may not be the same for all countries, market segments or stakeholders.

The task of the group work this afternoon is to discuss:

- the relevance of the G30 recommendations to the participants' institutions or markets;
- the participants' priorities given the limited resources available;
- work being in progress and if so by whom;
- most apt industry organisation or stakeholder to assume activities.

These discussion topics are suggestions, the working groups or their leaders may prefer a slightly different focus in addressing this task.